

Message Text

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ACTION AF-10

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E.O. 11652: N/A
TAGS: EFIN, SF
SUBJECT: SOUTH AFRICAN REACTIONS TO WEAKNESS OF DOLLAR
AND HIGH GOLD PRICE

1. SUMMARY: ALTHOUGH PUBLIC CONCERN IS HIGH OVER THE
IMPLICATIONS OF THE RAND-DOLLAR LINK AS THE DOLLAR WEAKENS,
SOUTH AFRICAN FINANCIAL LEADERS SEE NO IMMEDIATE MOVE
AWAY FROM THE DOLLAR. DESPITE THE ENORMOUS BENEFITS TO
SOUTH AFRICA OF THE HIGH GOLD PRICE, UNCERTAINTIES OVER
THE COURSE OF THE US ECONOMY ARE A SOURCE OF UNEASE.
END SUMMARY.

2. CHAIRMAN DE KOK OF SA MONETARY COMMISSION INDICATED
TO US THAT IT WAS MOST UNLIKELY THAT THE RAND WOULD SOON SEVER
ITS LINK WITH THE DOLLAR. HE SAID AN UNPRECEDENTED
DEGREE OF PUBLIC ATTENTION HAS FOCUSED ON THE WEAKNESS
OF THE DOLLAR, OBLIGING THE GOVERNMENT TO PUBLICIZE THE
FACT THAT, BECAUSE OVER 50 PERCENT OF SOUTH AFRICA'S
TRADE IS IN DOLLARS OR STERLING, THE RAND HAS ACTUALLY
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FALLEN ONLY ONE PERCENT THIS YEAR AGAINST ALL MAJOR
CURRENCIES ON A WEIGHTED BASIS. MOREOVER, WITH MINERAL
EXPORTS GENERALLY PRICED IN DOLLARS, PRESENT SITUATION
IMPROVES COUNTRY'S COMPETITIVENESS.

3. DKOKO SAID THAT ALTHOUGH MONETARY COMMISSION DID NOT
AT FIRST INTEND TO GIVE PRIORITY TO EXCHANGE RATE

QUESTION, IT WAS FORCED TO DO SO BECAUSE GOVERNMENT HAS BEEN DODGING CALLS FOR ACTION ON EXCHANGE RATE BY SAYING THAT WHOLE MATTER WAS UNDER REVIEW IN COMMISSION.

4. NOW COMMISSION WILL BE DEALING SOLELY WITH EXCHANGE RATES IN ITS INTERIM REPORT PROMISED BEFORE END OF YEAR, PERHAPS IN NOVEMBER. FULL REPORT WILL BE ISSUED ABOUT A YEAR LATER.

5. WHILE DEKOK GAVE NO CLEAR INDICATION OF HOW COMMISSION WAS LEANING, HE SAID ITS RECOMMENDATIONS WOULD CERTAINLY NOT BE IN FORM OF A NEW RATE FOR RAND. HE ALSO WAS UNENTHUSIASTIC ABOUT A RATE LINKED TO A BASKET OF CURRENCIES WHICH HAS REPEATEDLY BEEN PROPOSED BY PFP FINANCIAL SPOKESMAN BECAUSE RATE WOULD SHIFT SO OFTEN. AS FOR FREEING THE RAND, "WITH A FLOATING RATE YOU CAN DROWN" SAID DEKOKO.

6. COMMISSION IS, ACCORDING TO DEKOK, WEIGHING THE BROADENING OF SECURITIES RAND TO PERMIT ITS USE FOR DIRECT INVESTMENT IN SOUTH AFRICA. HE SAID IT WOULD BE A STIMULATORY MEASURE, CREATING JOBS VERY DIRECTLY, BRINGING IN FOREIGN KNOW-HOW AND MODERNIZE INDUSTRY. DRAWBACK IS THAT NEW INVESTMENT WOULD NOT HELP SOUTH AFRICA'S EXCHANGE POSITION BUT CONVERSELY WITHDRAWAL OF INVESTMENT WOULD NOT LEAD TO LOSS OF RESERVES EITHER. A REALLY LIMITED OFFICIAL USE

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BOLD STEP, SAID DEKOK, WOULD BE TO PERMIT SOUTH AFRICANS TO DEAL IN SECURITIES RAND WHICH WOULD BE EQUIVALENT OF DUAL EXCHANGE RATE AS IN BELGIUM.

7. FINANCE MINISTER HORWOOD HAS BEEN TAKING PUBLIC LINE ON RAND-DOLLAR LINK SIMILAR TO THAT OF DEKOK, STRESSING THAT TREND HAS BEEN GENERALLY SATISFACTORY FOR SOUTH AFRICAN TRADE AND ITS PRESENT ECONOMIC SITUATION AND HAS HELPED WARD OFF SPECULATION AGAINST THE RAND.

8. IN A SEMINAR OF SA BANKERS AND INVESTORS AUGUST 3, HORWOOD SAID THAT, WHILE HIGH GOLD PRICE WAS EXTREMELY BENEFICIAL TO SOUTH AFRICA IN TERMS OF RESERVE BUILD-UP AND GOVERNMENT REVENUE, IT MUST BE RECOGNIZED THAT HIGH GOLD PRICE IS RESULT OF "HEDGING AGAINST DISASTER." POSITION OF US ECONOMY WHICH SEEMED CLEAR THREE MONTHS AGO WAS NOW CONFUSED, WITH DANGER OF DOUBLE DIGIT INFLATION, AND LIKELIHOOD OF HIGHER INTEREST RATES AS STIMULATORY MEASURES BECOME NECESSARY. FUNDS WOULD MOVE AWAY FROM SA FOR MORE ATTRACTIVE RATES AT A BAD TIME WHEN RESERVES MAY BE UNDER PRESSURE AS SA ENTERS A GROWTH PHASE AND IMPORTS BEGIN TO MOVE UP.

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